

ARTICLE II

The Merger

Section 2.1. The Merger.

Subject to the terms and conditions of this Agreement, at the Effective Time (as defined in Section 2.2), CFAC shall be merged with and into CareFirst, and the separate corporate existence of CFAC shall thereupon cease (the "Merger"). CareFirst shall be the surviving corporation in the Merger (sometimes referred to herein as the "Surviving Corporation").

Section 2.2. Effective Time.

If all the conditions to the Merger set forth in Article VII shall have been fulfilled or waived in accordance herewith and this Agreement shall not have been terminated as provided in Article VIII, the consummation of the Merger (the "Closing") shall take place at the offices of Piper Marbury Rudnick & Wolfe LLP, 6225 Smith Avenue, Baltimore, Maryland 21209 as promptly as possible, but in no event later than five (5) business days, after the satisfaction or waiver of the conditions to the Closing set forth in Article VII that are to occur prior to, but not on, the date of the Closing. The day the Closing occurs is referred to herein as the "Closing Date." The parties shall cause the Articles of Merger substantially in the form of Appendix C (the "Articles of Merger") to be properly executed and filed with the Maryland State Department of Assessments and Taxation and any other required jurisdictions on the Closing Date. The Merger shall become effective at the time of filing the Articles of Merger or at such later time which the parties hereto shall have agreed upon and designated in such filing as the effective time of the Merger (the "Effective Time").

Section 2.3. Charter.

The Charter of CareFirst (substantially in the form of Appendix D) in effect upon its conversion to a stock corporation immediately prior to the Effective Time shall be the Charter of the Surviving Corporation, until duly amended in accordance with applicable law.

Section 2.4. Bylaws.

The Bylaws of CareFirst (substantially in the form of Appendix E) in effect upon its conversion to a stock corporation immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation, until duly amended in accordance with applicable law.

Section 2.5. Directors, Officers and Name of CareFirst.

From and after the Effective Time, until successors are duly elected or appointed and qualified in accordance with applicable law, (i) the directors of CFAC immediately prior to the Merger shall be the directors of the Surviving Corporation, and (ii) the officers of CareFirst

immediately prior to the Merger shall be the officers of the Surviving Corporation. The name of the Surviving Corporation ~~from and~~ immediately after the Effective Time shall continue to be "CareFirst, Inc."

ARTICLE III

Conversion of Shares; Purchase Price; Effects Of The Merger

Section 3.1. Conversion of Shares; Purchase Price.

At the Effective Time, each issued and outstanding share of CareFirst Common Stock shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the Per Share Amount. The "Per Share Amount" shall consist of the Per Share Cash Consideration plus the Per Share Stock Consideration. The Per Share Cash Consideration shall be an amount of cash (rounded to the nearest ~~cent~~ cent) determined by dividing (i) the Aggregate Cash Consideration by (ii) the number of shares of CareFirst Common Stock outstanding immediately prior to the Effective Time. The Per Share Stock Consideration shall be that number of shares of Purchaser's Class A Common Stock (rounded to the nearest ~~whole one hundredth of a share~~ cent) determined by dividing (i) the Aggregate Stock Consideration by (ii) the number of shares of CareFirst Common Stock outstanding immediately prior to the Effective Time. At the Closing, each holder of outstanding CareFirst Common Stock as shown on the books and records of CareFirst shall receive, in respect of each share of CareFirst Common Stock, a certificate or certificates representing the number of shares of Purchaser's Class A Common Stock along with cash (or immediately available funds) that together constitute the Per Share Amount.

Section 3.2. Effects of the Merger.

The Merger shall have the effects specified in Section 3-114 of the Maryland General Corporation Law.

ARTICLE IV

Representations And Warranties Of CareFirst

CareFirst hereby represents and warrants to Purchaser as follows:

Section 4.1. Organization, Qualification and Authorization.

(a) CareFirst is a not-for-profit, non-stock corporation duly organized, validly existing and in good standing under the laws of the State of Maryland; each CareFirst Subsidiary is listed on the CareFirst Disclosure Schedule. Each Primary CareFirst Insurer is a non-stock corporation of which CareFirst is the sole member and is duly organized, validly existing and in

good standing under the laws of its state of formation. Each CareFirst Company (other than CareFirst and the Primary CareFirst Insurers) has been duly formed and is validly existing and in good standing under the laws of its jurisdiction of formation, which jurisdictions are listed on the CareFirst Disclosure Schedule.

(b) Each CareFirst Company has all requisite power and authority, corporate and other, to carry on and conduct its business as it is now being conducted and to own or lease its properties and assets, except where the failure to satisfy the representations of this Section 4.1(b) would not result in a CareFirst Material Adverse Effect. CareFirst has delivered or made available to Purchaser accurate and complete copies of the articles of incorporation and bylaws, or equivalent governing instruments, as currently in effect, of each of the CareFirst Companies as of the date hereof.

(c) Each CareFirst Company is duly qualified to do business and is in good standing in each jurisdiction in which the ownership or operation of its assets or the conduct of its business requires such qualification, except where the failure to be so qualified or in good standing would not result in a CareFirst Material Adverse Effect. All such jurisdictions are listed on the CareFirst Disclosure Schedule.

(d) No equity security of any CareFirst Company is or may be required to be issued by reason of any option, warrant, right to subscribe to, call or commitment of any character whatsoever relating to, or security or right exchangeable or convertible into, shares of any capital stock of such CareFirst Company, and there are no contracts, commitments, understandings or arrangements by which any CareFirst Company is bound to issue or repurchase shares of its capital stock, or options, warrants or rights to purchase or acquire any additional shares of its capital stock. All shares of the CareFirst Subsidiaries are duly authorized, validly issued, fully paid and non-assessable, have not been issued in violation of, and are not subject to, any preemptive right. There are no contracts, commitments, understandings or arrangements by which any person has any right or claim to become a member of CareFirst or any of the Primary CareFirst Insurers.

(e) The CareFirst Disclosure Schedule sets forth the equity or member interests of each CareFirst Subsidiary that are owned by CareFirst or another CareFirst Company. The CareFirst Subsidiary Shares are owned, possessed or controlled by CareFirst, directly or indirectly, free and clear of all liens, restrictions, claims, equities, charges, options, rights of first refusal, encumbrances or other restrictions of any kind, with no defects of title whatsoever. CareFirst or another CareFirst Company has full power, right and authority to vote all of the CareFirst Subsidiary Shares. CareFirst is not a party to or bound by any voting trust, proxy or other agreement affecting or relating to the right to transfer or vote the CareFirst Subsidiary Shares.

Section 4.2. Authority.

CareFirst has all requisite power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby, subject to the receipt of the

regulatory approvals set forth in Section 4.4(b) hereof. The execution and delivery of this Agreement by CareFirst, the performance of its obligations hereunder and the consummation by it of the transactions contemplated hereby have been duly and validly authorized by the Boards of Directors of CareFirst and BCBSDeach Primary CareFirst Insurer, and except for the approval of the Merger by the Tax-Exempt Entities in their capacity as stockholders of CareFirst following the Conversion, no other corporate act or corporate proceeding on the part of the CareFirst Companies is necessary to approve the execution and delivery of this Agreement, the performance by CareFirst of its obligations hereunder or the consummation of the transactions contemplated hereby.

Section 4.3. Execution and Binding Effect.

This Agreement has been duly and validly executed and delivered by CareFirst and constitutes, and the other documents and instruments to be executed and delivered by CareFirst pursuant hereto upon their execution and delivery by CareFirst on or prior to the Closing Date will constitute (assuming, in each case, the due and valid authorization, execution and delivery thereof by the other party or parties thereto), legal, valid and binding obligations of CareFirst, enforceable against it in accordance with their respective terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, rehabilitation, reorganization, moratorium, or similar laws affecting enforcement of creditors' rights generally and (b) general equitable principles.

Section 4.4. No Violation; Consents and Approvals.

(a) Except as set forth on the CareFirst Disclosure Schedule and subject to the governmental filings (and other matters) referred to in Section 4.4(b), the execution, delivery and performance of this Agreement by CareFirst, compliance with the provisions of this Agreement, and the consummation by CareFirst or any CareFirst Company of the transactions contemplated hereby will not (i) conflict with or violate any provisions of the Charters or Bylaws in effect as of the date hereof of any CareFirst Company (and with respect to CareFirst and the Primary CareFirst Insurers, as such Charters and Bylaws are to be amended to accomplish the Conversion); (ii) conflict with, violate or result in any breach of, or constitute a default whether with or without notice or lapse of time or both, or give rise to any right of termination, cancellation or acceleration under any of the terms, conditions or provisions of, or render unenforceable, any note, bond, mortgage, indenture, license (including any license granted by BCBSA), franchise, permit, agreement, lease or other instrument or obligation to which any CareFirst Company is a party or by which any CareFirst Company, its business or any of its assets is bound; (iii) violate any statute, ordinance or law or any rule, regulation, order, writ, injunction or decree of any Governmental Entity applicable to any CareFirst Company, or by which its business or any of its assets is bound; (iv) require any filing, declaration or registration with, or permit, consent or approval of, or the giving of any notice to, any Governmental Entity; or (v) result in the creation or imposition of any lien, charge or encumbrance upon any CareFirst Company's assets; excluding from the foregoing clauses (other than clause (i)) such conflicts, violations, breaches and defaults and filings, declarations, registrations, permits, consents,

approvals and notices, other than approvals of the BCBSA, the absence of which, in the aggregate, would not result in a CareFirst Material Adverse Effect.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by any CareFirst Company for the execution and delivery of this Agreement by CareFirst or the consummation by CareFirst of the transactions contemplated by this Agreement, except for (i) the filing with the FTC and the DOJ of a notification and report form by CareFirst under the HSR Act; (ii) ~~the preparation and filing of appropriate documents with those filings, and approval of, the appropriate regulatory bodies in the States of Maryland and Delaware, the District of Columbia, the U.S. Congress and other jurisdictions regarding insurance-related approvals, and legislative actions described in Appendix G~~ (collectively referred to as the "CareFirst Primary Filings"); and (iii) such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to be obtained or made would not, in the aggregate, result in a CareFirst Material Adverse Effect.

Section 4.5. Financial Statements.

(a) CareFirst has delivered or made available to Purchaser copies of the financial statements listed on the CareFirst Disclosure Schedule (the "CareFirst Financial Statements"). The CareFirst Financial Statements are true and complete in all material respects, have been prepared in accordance with SAP or GAAP, as the case may be, consistently applied throughout the periods covered by such statements (except as may be stated in the explanatory notes to such statements) and present fairly, in all material respects, the financial position and results of operations (consolidated in the case of CareFirst) of the CareFirst Companies at the dates of and for the periods covered thereby. The CareFirst Financial Statements for interim periods are subject to normal recurring year-end adjustments and lack explanatory notes.

(b) Except as disclosed in the CareFirst Financial Statements at and for the year ending months ended December 31, 2000, September 30, 2001, no CareFirst Company has any liabilities of any nature, whether known, unknown, accrued, absolute, contingent or otherwise, and whether due or to become due, probable of assertion or not, except liabilities that (x) were incurred after December 31, 2000, September 30, 2001 in the ordinary course of its business consistent with past practices, or (y) in the aggregate would not have a CareFirst Material Adverse Effect.

Section 4.6. Reserves.

(a) Except as set forth in the CareFirst Disclosure Schedule [?], the aggregate actuarial reserves and other actuarial amounts held in respect of liabilities with respect to any or all of the CareFirst Insurers as established or reflected in their respective 2000 financial statements previously delivered to Purchaser the CareFirst Financial Statements:

(i) (A) were determined in accordance with presently accepted actuarial standards consistently applied, and (B) were fairly stated in all material respects in accordance with sound actuarial principles;

(ii) met the requirements of the applicable insurance laws or regulations of the State of Maryland, the District of Columbia, the State of Delaware or any other state having jurisdiction, in all material respects;

(iii) met the requirements of the BCBSA;

(iv) have been computed in all material respects on the basis of methodologies consistent with those used in computing the corresponding reserves in the prior fiscal year (except as may be stated in the explanatory notes to such statements);

(v) include provisions for all actuarial reserves and related items that are required to be established in accordance with applicable laws and regulations; and

(vi) CareFirst is unaware of any facts or circumstances that would necessitate, in the application of GAAP, the restatement of reserves above those reflected in the GAAP balance sheets included in the most recent CareFirst Financial Statements ~~delivered to Purchaser prior to the date hereof.~~

(b) Each Primary CareFirst Insurer's surplus is now, and immediately prior to the Closing will be, not less than 100% of the statutorily adequate reserve minimums required by applicable law.

Section 4.7. Taxes.

(a) As of the date hereof, each of the Primary CareFirst Companies has been and, to CareFirst's knowledge, is an "existing Blue Cross and Blue Shield organization" as defined in Section 833(c)(2) of the Code, and has filed its federal income tax returns for all periods after the effective date of Section 833 of the Code consistent with its reasonable interpretation of the treatment described in Section 833 of the Code.

(b) All federal income tax returns required to be filed by any CareFirst Company have been properly and timely filed with the IRS, and all state and local income and premium tax returns required to be filed by any CareFirst Company have been properly and timely filed with the appropriate state or local taxing authorities, or an appropriate application for extension of time to file such returns has been filed, except where the failure to file such state and local tax returns would not result in a CareFirst Material Adverse Effect. Except as set forth in the CareFirst Disclosure Schedule [2], such tax returns were true, correct and complete in all material respects at the time filed, and each CareFirst Company has paid and discharged all Taxes shown to be due on such returns, other than such Taxes as are being contested in good faith by appropriate proceedings and are adequately reserved for on the most recent financial statements. Each CareFirst Company has adequately reserved, in accordance with SAP or GAAP, as applicable, on the financial statements referred to in Section 4.5, for the payment of all

unpaid Taxes, including interest and penalties, payable in respect of any taxable event or period (including interim periods) ending on the dates of such financial statements and for all periods prior thereto.

(c) No claim or deficiency for any Taxes has been proposed, asserted, assessed or, to the knowledge of CareFirst, threatened, by the IRS or any other taxing authority or agency against any CareFirst Company which, if resolved against such CareFirst Company would, in the aggregate, result in a CareFirst Material Adverse Effect. No requests for waivers of the time to assess any Taxes are pending. Except as set forth in the CareFirst Disclosure Schedule, none of the federal income tax returns for any CareFirst Company has been examined by or settled with the IRS for any year, and none of the tax returns for any CareFirst Company remains open or pending.

Section 4.8. Absence of Certain Changes or Events.

Except as set forth on CareFirst's Disclosure Schedule, since December 31, 2000 and through the date of this Agreement, (a) each of the CareFirst Companies has, in all material respects, conducted its business in the ordinary course consistent with past practices, (b) neither CareFirst nor any CareFirst Subsidiary has taken any action set forth in Section 6.1(a) which if taken after the date hereof would violate such Section, and (c) the CareFirst Companies have not experienced any event, occurrence, development or state of circumstances or facts that, in the aggregate, has had, or would reasonably be expected to have, a CareFirst Material Adverse Effect.

Section 4.9. Litigation; Judicial Proceedings.

(a) ~~As of the date of this Agreement, there~~ There are no judicial or administrative actions, proceedings or investigations pending or, to the knowledge of CareFirst, threatened, that (i) question the validity of this Agreement or any action taken or to be taken by CareFirst in connection with this Agreement, or (ii) seek to prevent the consummation by CareFirst of any of the transactions contemplated by this Agreement.

(b) ~~Except as set forth in the CareFirst Disclosure Schedule or as otherwise disclosed in writing by CareFirst to Purchaser on or before the date of this Agreement, there is no~~ litigation, proceeding, suit, action, charge or investigation pending or, to the knowledge of CareFirst, threatened, or any order, judgment, injunction, decree, plea agreement, stipulation or award of any kind outstanding, against or relating to any CareFirst Company, or involving any of its property or business, the outcome of which in the aggregate may reasonably be expected to result in a CareFirst Material Adverse Effect.

Section 4.10. Compliance with Law.

(a) Each CareFirst Company ~~is conducting~~ has conducted its business in compliance with all statutes, laws, rules, regulations, ordinances, decrees, judgments, injunctions and orders applicable to it (including those relating to ERISA, labor laws, Health Benefit Laws,

environmental laws and health and safety matters), except where such failure to comply would not have a CareFirst Material Adverse Effect, and has not received any notice that it is in material noncompliance with any such statutes, laws, rules, regulations, ordinances, decrees, injunctions or orders.

(b) Each CareFirst Company currently holds all permits, licenses and approvals of every Governmental Entity necessary for the ownership of its respective assets and the operation of its respective businesses (including those relating to ERISA, labor laws, Health Benefit Laws, environmental laws and health and safety matters) except where the failure to hold such permits, licenses or approvals would not result in a CareFirst Material Adverse Effect. The CareFirst Disclosure Schedule sets forth a complete list of all material permits, licenses and approvals of the CareFirst Companies.

(c) Each CareFirst Company is in compliance with all such permits, licenses and approvals, except where such failure to comply would not result in a CareFirst Material Adverse Effect.

(d) No CareFirst Company nor any officer, employee, agent, representative or other person acting on the express, implied or apparent authority thereof, has paid or received any bribe or other unlawful, questionable or unusual payment of money or other thing of value, granted or accepted any extraordinary discount, or furnished or been given any unlawful or unusual inducement to or from any person or Governmental Entity in connection with or in furtherance of the business of any CareFirst Company.

(e) All information provided by each CareFirst Company in connection with the preparation and filing of any regulatory notice or other regulatory filing was true, complete and accurate in all material respects when made.

(f) Each CareFirst Company is, to the extent applicable, in compliance in all material respects, with all rules and regulations of the BCBSA.

Section 4.11. Certain Contracts and Commitments.

(a) All CareFirst Material Contracts are listed on the CareFirst Disclosure Schedule. CareFirst has delivered to Purchaser, or provided Purchaser with the opportunity to review, complete and accurate copies of all of the CareFirst Material Contracts to which it is a party and all amendments thereto. The CareFirst Disclosure Schedule contains an accurate and complete summary description of any CareFirst Material Contract that is not in writing.

(b) No CareFirst Company is in default, nor does there exist any event that, with or without notice or lapse of time or both, would constitute a violation, breach or default by any CareFirst Company under any CareFirst Material Contract, and each CareFirst Material Contract is valid, binding and in full force and effect, and to the knowledge of CareFirst, there is no violation, breach or default by any other party to any CareFirst Material Contract and no other party has notified a CareFirst Company of its intention to cease to perform any services required to be performed by such other party or withhold any payment required to be made by such other

party to it thereunder, except to the extent that any such violation, breach or default would not result in a CareFirst Material Adverse Effect.

Section 4.12.. Employee Plans; ERISA; Labor Matters.

(a) The CareFirst Disclosure Schedule contains a list, which is accurate and complete in all material respects, of all the Benefit Plans maintained by the CareFirst Companies (the "CareFirst Plans"), including all material employment, consulting, non-competition, severance, change of control, executive compensation, incentive and other similar agreements.

(b) Each CareFirst Company is not, and has never been obligated to make any contributions to any multi-employer plan, as defined in Section 3(37) of ERISA. The CareFirst Plans have been administered, in all material respects, in compliance with the applicable requirements of the Code and ERISA. No CareFirst Company, nor to the knowledge of CareFirst, any plan fiduciary of any CareFirst Plan has engaged in any transaction in violation of Section 406(a) or (b) of ERISA for which no exemption exists under Section 408 of ERISA or any "prohibited transaction" (as defined in Section 4975(c)(1) of the Code) for which no exemption exists pursuant to Section 4975(c)(2) or (d) of the Code. With respect to each of the CareFirst Plans that is subject to Title IV of ERISA, as of the Closing, the fair market value of the assets of such CareFirst Plan will equal or exceed the present value of all benefit liabilities of such CareFirst Plan, if such CareFirst Plan were terminated as of the Closing. No CareFirst Company has in effect any stock option or stock purchase plan.

(c) Except for CareFirst's obligation to make contributions under the CareFirst Plans and except for its self-insured arrangements (each as disclosed in the CareFirst Disclosure Schedule), CareFirst is not subject to any direct obligation or liability under any of the CareFirst Plans. Each CareFirst Company has paid in full to its employees, agents and contractors all wages, salaries, commissions, bonuses and other direct compensation for all services performed by them, except where the failure to make such payment would not have a CareFirst Material Adverse Effect. No CareFirst Company is liable for any severance pay or other payments on account of termination of former employees except as disclosed in the CareFirst Disclosure Schedule or as would not have a CareFirst Material Adverse Effect.

(d) Each CareFirst Company has complied in all material respects with the applicable provisions of ERISA, the published authorities thereunder and all applicable federal and state laws relating to the CareFirst Plans, including laws relating to the employment of labor (including the provisions thereof relating to wages, hours, collective bargaining and the payment of social security and taxes), and is not liable for any arrearages of wages, any tax or any penalty for failure to comply with any of the foregoing, except where such failure to comply or liability would not have a CareFirst Material Adverse Effect.

(e) ~~There~~ Except as set forth in the CareFirst Disclosure Schedule, (i) there is no material labor strike, dispute, slowdown or stoppage actually pending or, to the knowledge of CareFirst, threatened against or affecting a CareFirst Company or its business, ~~except as would not have a CareFirst Material Adverse Effect. Except as would not have a CareFirst Material~~

~~Adverse Effect: (iii) no representation question exists with respect to the employees of a CareFirst Company; and (iii) no collective bargaining agreement with employees of any CareFirst Company is in effect or currently being negotiated, and (iv) to CareFirst's knowledge, within the past five years there has not been, nor is there presently pending, any attempt to organize non-union employees, nor are there plans for any such attempts.~~

(f) CareFirst has delivered or made available to Purchaser copies of all documents and summary plan descriptions, which are true and correct, with respect to the CareFirst Plans, or summary descriptions of any CareFirst Plans not otherwise in writing.

(g) To the knowledge of CareFirst, there are no negotiations, demands or proposals that are pending which concern matters now covered, or that would be covered, by plans, agreements or arrangements of the type described in this Section 4.12.

(h) Except as disclosed in the CareFirst Disclosure Schedule:

(i) Each CareFirst Company has performed in all material respects all of its obligations under all of the CareFirst Plans.

(ii) To the knowledge of CareFirst, there are no actions (other than routine claims for benefits or other actions that would not have a CareFirst Material Adverse Effect) pending or threatened against the CareFirst Plans or their assets, or arising out of the CareFirst Plans, and, to the knowledge of CareFirst, no facts exist which may reasonably be expected to give rise to any such actions.

(iii) Each of the CareFirst Plans can be terminated by a CareFirst Company within a period of thirty (30) days following the Closing, without payment of any additional compensation or amount or, with the exception of the termination of any CareFirst Plans to which Section 401(a) of the Internal Revenue Code applies, the additional vesting or acceleration of any such benefits.

(i) Except as required by applicable law or as ~~would not have disclosed in the CareFirst Material Adverse Effect Disclosure Schedule~~, since December 31, 2000, there has not been any adoption or amendment in any material respect by any CareFirst Company of any of the CareFirst Plans providing benefits to any current or former employee, officer or director of any CareFirst Company. Except as disclosed in the CareFirst Disclosure Schedule, since December 31, 2000, no CareFirst Company has taken any action to accelerate any rights or benefits under any CareFirst Plan, either generally or specifically, for the benefit of any trustee, director, officer or employee or class thereof, excluding non-material acceleration of rights or benefits or payment of non-material amounts by any CareFirst Company upon the dismissal of any of its non-officer employees in the ordinary course of business.

(j) Except as disclosed in the CareFirst Disclosure Schedule:

(i) A CareFirst Company has received a favorable determination letter (current through the Tax Reform Act of 1986) with respect to all CareFirst Plans to which

Section 401(a) of the Code applies and, to the knowledge of CareFirst, there are no facts that exist nor amendments that have been made that are reasonably likely to change the qualified status of such CareFirst Plans.

(ii) None of the CareFirst Plans obligates any CareFirst Company to pay separation, severance, termination or other benefits solely as a result of the consummation of the transactions contemplated by this Agreement.

Section 4.13. Capital Stock.

(a) The CareFirst Common Stock to be issued to the Tax-Exempt Entities in connection with the Conversion, when issued in accordance with this Agreement and Appendix A hereto, will be duly and validly issued, fully-paid and nonassessable and will be issued in accordance with applicable federal and state laws. Upon issuance, the shares of CareFirst Common Stock to be issued to the Tax-Exempt Entities in connection with the Conversion will be the only equity securities of CareFirst issued and outstanding.

(b) Other than as contemplated by this Agreement, there are not outstanding nor is CareFirst bound by, any subscriptions, options, preemptive rights, warrants, calls, commitments, or agreements or rights of any character requiring it to issue or entitling any other person or entity to acquire any shares of CareFirst Common Stock or any other equity security of CareFirst, including any right of conversion or other instrument, and CareFirst is not and, following the Conversion, will not be, obligated to issue or transfer any shares of its capital stock for any purpose. There are, and following the Conversion there will be, no outstanding obligations of CareFirst to purchase, redeem or otherwise acquire any outstanding shares of its capital stock.

Section 4.14. Brokers and Finders.

Except for Credit Suisse First Boston, whose fee shall be the sole responsibility of CareFirst, neither CareFirst nor any of its officers, directors or employees has employed any broker, finder or investment banker or incurred any liability for any brokerage fees, commissions or finders' fees or other fees in connection with the transactions contemplated by this Agreement. The material terms of the engagement with Credit Suisse First Boston have been CareFirst has provided to Purchaser a copy of its engagement letter with Credit Suisse First Boston, which letter sets forth all of the terms of its engagement with Credit Suisse First Boston with respect to this Agreement and the transactions contemplated hereby.

Section 4.15. Environmental Matters.

(a) The CareFirst Disclosure Schedule contains a list of all environmental assessment reports prepared by or on behalf of CareFirst or its predecessors (the "CareFirst Environmental Reports") with respect to CareFirst Owned Property and real property leased by any CareFirst Company (collectively, the "CareFirst Properties"). CareFirst has delivered to Purchaser, or

provided Purchaser with the opportunity to review, copies of all the CareFirst Environmental Reports, which are accurate and complete in all material respects.

(b) Except for those matters set forth in the CareFirst Environmental Reports, no CareFirst Company has stored or used any Materials of Environmental Concern at any CareFirst Property, except in such quantities and under such conditions as would normally be associated with the operation and maintenance of an office facility and, at all times, in material compliance with the Environmental Laws except for such non-compliance as would not reasonably be expected to have a CareFirst Material Adverse Effect.

(c) No CareFirst Company has received (i) any request for information under Section 104(e) of the Comprehensive Environmental Response, Compensation and Liability Act or similar authority, (ii) any written notice, complaint, warning letter or notice of violation of any Environmental Law or environmental permit or (iii) any notice that it is responsible (or potentially responsible) for the assessment or remediation of any release of any Material of Environmental Concern at, on or beneath any CareFirst Property or with respect to any other property except as would not reasonably be expected to have a CareFirst Material Adverse Effect.

(d) No CareFirst Company is the subject of any actual or, to CareFirst's knowledge, threatened federal, state, local or private litigation involving a claim of liability or a demand for damages arising out of any actual alleged violation of any Environmental Law or from the alleged or threatened release of any Material of Environmental Concern at or beneath any CareFirst Property or otherwise relating to the environmental condition of any other property which, in the aggregate, could reasonably be expected to result in a CareFirst Material Adverse Effect.

(e) Except for those matters set forth in the CareFirst Environmental Reports or the CareFirst Disclosure Schedule, no CareFirst Company has knowledge of any release or threatened release of a Material of Environmental Concern, the presence of any current or former dry-cleaning facility, the presence of any current or former storage tanks, the presence of any asbestos containing material or the presence of any other condition or circumstance at any CareFirst Property which could reasonably be expected to subject the owner or operator of any CareFirst Property to liability or claims under the Environmental Laws which, in the aggregate, could reasonably be expected to result in a CareFirst Material Adverse Effect.

(f) Except as set forth in the CareFirst Environmental Reports, to CareFirst's knowledge, there are no environmental conditions present at any CareFirst Property which pose an imminent or substantial endangerment to human health or the environment.

(g) Except for those matters set forth in the CareFirst Environmental Reports, neither any CareFirst Company nor any CareFirst Property is currently in violation of any applicable Environmental Law which could subject the owner or operator of any CareFirst Property to any fine or require any remedial action of any CareFirst Property, which, in the aggregate, could reasonably be expected to result in a CareFirst Material Adverse Effect.

(h) Each CareFirst Company has timely filed all reports required by any Environmental Law and has generated and maintained all data, documentation and records required under any Environmental Law, except where the failure to file such reports or generate and maintain such data, documentation and records could not reasonably be expected to result in a CareFirst Material Adverse Effect.

(i) No CareFirst Company has knowledge of any existing or imminent restriction on the ownership, occupancy, use or transferability of any CareFirst Property arising out of any known environmental condition or violation of any Environmental Law that, in the aggregate, could reasonably be expected to result in a CareFirst Material Adverse Effect.

Section 4.16. Non-competition Agreements.

Except as disclosed in the CareFirst Disclosure Schedule, no CareFirst Company is bound by any non-competition agreements or similar material restrictions on its ability to sell any products or services, engage in any line of business, or conduct their respective businesses.

Section 4.17. Resale Registration Statement; Purchaser's Proxy Statement.

The information supplied or to be supplied by CareFirst in writing for inclusion in the Resale Registration Statement or Purchaser's Proxy Statement does not and will not contain any untrue statement of material fact and does not omit or will not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

Section 4.18. Insurance Policies.

All of the CareFirst Companies' material insurance policies (including reinsurance) that insure the properties, business or liability of the CareFirst Companies or the liability of their directors, officers or agents are listed in the CareFirst Disclosure Schedule. Except to the extent that there would be no CareFirst Material Adverse Effect, all of the CareFirst Companies' insurance (including reinsurance), surety bonds and umbrella policies insuring the CareFirst Companies and their directors, officers, agents, properties and business are valid and in full force and effect and without any premium past due, and there are no claims, singly or in the aggregate, under such policies which are in excess of the limitations of coverage set forth in such policies. Except as where any of the following would not have a CareFirst Material Adverse Effect, no CareFirst Company has received notice of default under, or intended cancellation or non-renewal of, any material policies of insurance (including reinsurance) which insure the properties, business or liability of the CareFirst Companies.

Section 4.19. Intellectual Property.

The CareFirst Disclosure Schedule contains all material applications or registrations for patents, trademarks and copyrights owned by any CareFirst Company and all material licenses or other agreements concerning Intellectual Property to which any CareFirst Company is a party.

Except as set forth in the CareFirst Disclosure Schedule or as would not reasonably be expected to have a CareFirst Material Adverse Effect, (i) each CareFirst Company owns or has the right to use all Intellectual Property necessary to conduct its business as currently conducted, free and clear of all claims, liens or other encumbrances or restrictions of any kind; (ii) the CareFirst Companies' Intellectual Property does not infringe any Intellectual Property of any third party; (iii) there are no pending or, to the knowledge of CareFirst, threatened actions or litigation against any CareFirst Company challenging their ownership or use of any Intellectual Property; and (iv) the CareFirst Companies take reasonable actions to maintain and preserve their respective Intellectual Property.

Section 4.20. Real and Personal Property.

(a) The CareFirst Disclosure Schedule sets forth a list and description which is true, complete and correct of all real property owned by CareFirst or any of the CareFirst Subsidiaries (the "CareFirst Real Property"). CareFirst or one of the CareFirst Subsidiaries is the owner of the title to the CareFirst Real Property and to all of the buildings, structures, and other improvements located thereon free and clear of any mortgage, deed of trust, lien, pledge, security interest, claim, lease, charge, option, right of first refusal, easement, restrictive covenant, encroachment or other survey defect, encumbrance or other restriction or limitation except for matters on the CareFirst Disclosure Schedule or any CareFirst Permitted Liens.

(b) (b) — The CareFirst Disclosure Schedule sets forth a list and description which is true, complete and correct of all leases, subleases, licenses or other agreements under which CareFirst or any of the CareFirst Subsidiaries uses or occupies, or has the right to use or occupy, now or in the future, any real property or improvements thereon (the "CareFirst Real Property Leases"). Except for matters listed on the CareFirst Disclosure Schedule, CareFirst or one of the CareFirst Subsidiaries holds the leasehold estate under an interest in each CareFirst Real Property Lease free and clear of all liens, encumbrances and other rights or occupancy, except for matters on the CareFirst Disclosure Schedule or any CareFirst Permitted Liens. Except as set forth on the CareFirst Disclosure Schedule, there is not under any such CareFirst Real Property Lease any existing default, or any condition, event, or act which with notice or lapse of time, or both, would constitute such a default, which in either case, considered in the aggregate with all such other CareFirst's Real Property Leases under which there is such a default, condition, event or act, would have a CareFirst Material Adverse Effect.

Section 4.21. Indebtedness.

The CareFirst Disclosure Schedule sets forth a complete and accurate list and description of all instruments or other documents relating to any direct or indirect indebtedness for borrowed money of CareFirst or a CareFirst Subsidiary (and the amounts owed thereunder as of the date of this Agreement), as well as other material indebtedness by way of lease-purchase arrangements, guarantees, undertakings on which others rely in extending credit, and all conditional sales contracts, chattel mortgages and other security arrangements with respect to personal property used or owned by CareFirst or a CareFirst